

## **GENERAL INFORMATION**

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operations of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the CRA performance of **The State Bank of Geneva, Geneva, Illinois** prepared by the **Federal Reserve Bank of Chicago**, the institution's supervisory agency, as of **June 8, 1998**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 228.

**INSTITUTION'S RATING:** This institution is rated **Satisfactory**.

The State Bank of Geneva generally promotes economic development in a manner consistent with its asset size, financial capacity and current economic conditions in its assessment area. The bank meets the credit needs of the community through the origination of consumer and commercial loans. The bank's loan-to-deposit ratio meets the standards for satisfactory performance, and the majority of the bank's loans are within its assessment area. Lending to borrowers of different income levels and small businesses is reasonable. There is no evidence of prohibited discriminatory lending policies, or practices intended to discourage loan applicants. Since the previous examination the bank has not received any CRA-related complaints.

## **DESCRIPTION OF INSTITUTION**

The State Bank of Geneva, with total assets of \$80,257,000 as of March 31, 1998, is a subsidiary of Geneva Bancshares, Incorporated, a one-bank holding company located in Geneva, Illinois. The bank operates one full service office in downtown Geneva. Commercial/industrial and commercial real estate loans comprise approximately 60.94% of the bank's loan portfolio, while consumer real estate-related loans represent 31.52% of the portfolio. Additionally, the bank offers a variety of deposit and consumer loan services such as home equity lines of credit (closed and open-end), overdraft protection and credit cards (Visa/Mastercard). Based upon information contained in the March 31, 1998 Uniform Bank Performance Report (UBPR), approximately 53.41% of the bank's loan portfolio is real estate related and 39.05% is in commercial and industrial loans. Loans to individuals approximate 7.96%. The bank discontinued offering student loans; however applications are accepted and forwarded to the appropriate agency for processing. There have been no other government-sponsored loan programs offered since the previous examination.

The bank's competitors include branch offices of Firststar Bank, Harris Bank, Merchants National Bank of Aurora, Fox Valley Bank, and the Old Second National Bank of Aurora. Additional competition is provided by other bank branches and credit unions located in neighboring communities.

## **DESCRIPTION OF THE STATE BANK OF GENEVA'S ASSESSMENT AREA**

The bank is located in Kane County, Illinois in the City of Geneva, which is approximately 55 miles west of downtown Chicago. The bank's assessment area is rectangular in shape and has not changed since the previous examination. The assessment area continues to be defined as 14 census tracts (CTs), of which six (42.9%) are middle-income and eight (57.1%) are upper income tracts. There are no low- and moderate-income census tracts within the bank's assessment area. The bank's entire assessment area is located within the Chicago Metropolitan Statistical Area and includes Geneva, St. Charles, Blackberry and Batavia Townships. According to the 1990 U. S. Census, the population in the bank's assessment area is 82,234, with the City of Geneva (population 10,198) being the most heavily populated community in the assessment area. The population for the assessment area represents 1.11% of the total population (7,410,858) within the MSA.

Census data reveals that the assessment area's housing market consists of 29,092 housing units, of which 21,940 (75.4%) are owner-occupied units; 6,075 (20.9%) are rental units; and 1,077 units (3.7%) are vacant. One-to-four family units account for the majority (25,549 or 87.8%) of the housing units, while multifamily and mobile homes total 3,219 (11.1%) and 67 (.2%), respectively, of the remaining housing units located in the assessment area. The median housing value in the assessment area is \$147,385, compared to \$108,960 and \$80,114 for the MSA and state, respectively. The median age of homes in the bank's assessment area is 20 years and 5,888 (20.2%) were built before 1950. Homes in the MSA and state have a median age that is more than twice as old as the assessment area (45 years). The majority of the homes (16,091 or 80.7%) in the assessment area are valued at \$100,000 and above. According to comments received from representatives of the community, home prices will increase and new home construction will be more upscale. Information obtained from the Northeastern Illinois Planning Commission (NIPC) showed the average home sold for \$211,695 in 1995, with prices ranging from less than \$100,000 to \$920,000. Community contacts stated that with the amount of upscale housing construction occurring in the surrounding area, it is unlikely that there will be census tracts defined as low- or moderate in the future. The median family income in the assessment area is \$56,814, compared to \$42,758 and \$38,664 for the MSA and state, respectively. The number and percentage of families within the assessment area, by income level, is as follows; low-income 1,520 or 6.8%; moderate-income 2,530 or 11.3%; middle-income 5,304 or 23.8% and upper-income 12,976 or 58.1%. The majority (81.90%) of families fall within the middle to upper income categories. Based upon the assessment area's median housing value (\$147,385) and the monthly gross income designated for individuals (\$2,376), the area's current housing value would not be affordable for low-income

individuals. Given this analogy, more affordable housing and innovative real estate underwriting standards are needed for low- and moderate-income individuals that reside within the assessment area. According to comments received from community contacts, there is a lack of local support for development of additional affordable housing for low-income families.

Some of the largest employers in the bank's assessment area are listed below:

Company Name	City	# of Employees	Product Description
System Sensor	St. Charles	1,000	Fire alarms & smoke detectors
Burgess-Norton	Geneva	900	Screw machine products, powered metal parts and castings
Dukane Corporation	St. Charles	700	Sound and communication equipment, projectors, amplifiers, plastic welding system
Consolidated Business Systems	St. Charles	500	Tax forms and custom business forms
Furnas Electric Company	Batavia	500	Electric motor controls, starter switches, drums, relays, timers
Suncast Corporation	Batavia	450	Plastic Lawn and garden products
United Laboratories, Inc.	St. Charles	400	Cleaning and sanitizing chemicals
Armour-Swift-Eckrich Dry Sausage Plant	St. Charles	350	Sausage and salami processing
Teltrend, Incorporated	St. Charles	300	Telecommunication equip.
Johnson Controls, Inc., Battery Group	Geneva	300	Automobile batteries

The number of employees was verified by a staff member from each of the businesses above.

Based upon information from the State of Illinois Department of Employment Security, the unemployment rate for Kane County and the State of Illinois during the first quarter of 1998 were 5.5%, and 4.4%, respectively. According to the 1990 U.S. census data, the unemployment rate in the assessment area was 2.7%. There are 44,458 people in the assessment area's labor force, which represents approximately half of its total population. The size of the labor pool and unemployment levels were taken into consideration in assessing the bank's performance in the extension of credit within the assessment area. Other factors considered were the number of persons (1,906 or 2.3%) institutionalized (correctional institutions, nursing homes or a home shelter) in the assessment area.

### CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

There is no evidence of prohibited discriminatory credit practices. The bank is in compliance with the substantive provisions of anti-discrimination laws and regulations, including the Equal Credit Opportunity and Fair Housing Acts.

**LOAN-TO-DEPOSIT RATIO**

The March 31, 1998 Uniform Bank Performance Report (UBPR) indicates that the bank's LTD ratio is 14.51% lower than that of its peer group, with the bank's ratio being 54.93% and the peer 69.44%. An analysis of the bank's Consolidated Reports of Condition for the six quarters preceding the examination revealed a loan-to-deposit (LTD) ratio of 57.56%. The following chart illustrates the bank's LTD during the most recent six quarters.

<b>THE STATE BANK OF GENEVA</b>				
<b>Date</b>	<b>Deposits</b>	<b>Loans</b>	<b>Ratio</b>	<b>Assets</b>
3/31/98	\$71,539	\$39,298	54.93%	\$80,257
12/31/97	\$73,166	\$40,594	55.48%	\$81,388
9/30/97	\$70,490	\$43,147	61.21%	\$79,070
6/30/97	\$71,971	\$39,745	55.22%	\$80,148
3/31/97	\$68,659	\$41,141	59.92%	\$76,964
12.31/96	\$71,778	\$42,062	58.60%	\$79,923
<b>Averages</b>	<b>\$71,267</b>	<b>\$40,997</b>	<b>57.56%</b>	<b>\$79,625</b>

The bank's loan-to-deposit ratios were not compared with that of local competition, as the bank's local competitors are primarily branch offices of larger financial institutions. Further review of the March 31, 1998 UBPR revealed that the bank exceeded the peer group in the one-to-four family, commercial real estate and commercial/industrial loan categories, while it lagged the peer group slightly in the following loan categories: real estate construction and development, and loans to individuals. Based upon the bank's assets size, lending opportunities and current economic factors, the bank's loan-to-deposit ratio meets the standards for satisfactory performance.

**Lending in Assessment Area**

Installment, single payment, real estate and commercial loans originated between December 1997 and May 1998 were selected as the CRA sample for the examination. The sample included a total of 139 loans; the following chart depicts the number of loans originated within the bank's assessment area:

<b>LOAN TYPE</b>	<b>NUMBER OF LOANS ORIGINATED</b>	<b>NUMBER OF LOANS WITHIN ASSESSMENT AREA</b>	<b>PERCENT IN ASSESSMENT AREA</b>
Installment	36	31	86.11%
Single Payment	19	14	73.68%
Real Estate	4	4	100.00%
Credit cards (Visa/Mastercard)	5	5	100.00%
Home Equity (Closed-End)	2	2	100.00%
Home Equity (Open-End)	14	11	78.57%
Commercial	58	47	81.03%
Consumer Line of Credit	1	1	100.00%
<b>Total Loans:</b>	<b>139</b>	<b>115</b>	<b>82.73%</b>

As illustrated in the chart the majority (83%) of all loans were made to borrowers who reside within the bank's assessment area.

Review of the bank's 1996 and 1997 HMDA data revealed that the bank originated 22 or 75.86% of its loans in 1996, and 18 or 78.26% of its loans in 1997 within its assessment area. During monthly fair lending reviews conducted by the bank's compliance officer, the address of loan applicants are reviewed to assess whether loans are within the assessment area and to identify any unusual lending patterns. If a significant volume of loans is identified outside the bank's assessment area, the compliance officer will bring the issue to the Executive Loan Committee's attention for review and corrective action (if needed). The level of lending within the assessment area exceeds the standards for satisfactory performance.

### **LENDING TO BORROWERS OF DIFFERENT INCOME LEVELS AND TO BUSINESSES OF DIFFERENT SIZES**

Review of the bank's June 30, 1996, and June 30, 1997, Consolidated Reports of Condition revealed that all of the bank's commercial/industrial and commercial real estate loans were in amounts of \$100,000 or less.

#### **Number of Small Business Loans Outstanding**

<b>Loan Type</b>	<b>June 1996 # and \$</b>	<b>June 1997 # and \$</b>
Commercial Real Estate	84 / \$7,503	80 / \$7,444
Commercial/Industrial	228 / \$17,130	203 / \$16,292

As illustrated in the chart, there was a slight decline in loans during 1997, by 4 or 4.76% for commercial real estate loans and 25 or 10.96% for commercial/industrial loans. According to bank management the decreases were attributable to loan pay-downs and/or pay-offs.

Review of the six-month commercial loan sample revealed that 47 or 81.03% of the total 58 commercial loan originations were within the bank's assessment area. Twenty-five of the loans were to businesses with gross revenues of less than \$1 million. Also, \$5,910,791 or 85.76% of the total commercial loans funded during this period were to businesses in the assessment area. The loan amounts ranged from \$3,025 to \$934,102. The average commercial loan amount was \$118,850. The small commercial loan amounts suggest that the bank's commercial lending activity focused on the borrowing needs of small businesses. Further discussion with management and review of the bank's commercial loan files supports this contention.

Review of the bank's 1996 and 1997 HMDA data revealed that the bank originated 22 loans in 1996 and 18 in 1997. Twelve of the bank's 1996 originations (54.55%) and four of the 1997 originations (22.22%) were to low- and moderate-income applicants residing within the bank's assessment area. A sample of consumer loans originated within the six months preceding the examination was reviewed to assess the bank's lending to borrowers of different income levels.

The results are illustrated in the following chart.

LOAN TYPE	LOW-INCOME Number/\$	MODERATE-INCOME Number/\$	MIDDLE-INCOME Number/\$	UPPER-INCOME Number/\$
Installment *	12/\$69,845	15/\$59,122	11/\$112,577	2/\$20,025
Single Payment *	2/\$4,025	1/\$1,850	3/\$36,526	7/\$114,124
Real Estate **	0/\$0	2/\$250,000	2/\$210,000	9/\$1,507,754
Home Equity (closed-end)	0/\$0	0/\$0	1/\$9,855	2/\$31,272
Home Equity (open-end) *	0/\$0	1/\$10,000	6/\$132,000	8/\$380,000
Credit Cards *	2/\$1,500	1/\$2,000	0/\$0	2/\$25,000
<b>Totals:</b>	<b>16/\$75,370</b>	<b>20/\$322,972</b>	<b>23/\$500,958</b>	<b>30/\$2,078,175</b>

\* No income available for one approved **installment** loan in the amount of \$2,783 granted to an employee.

No income available for one approved **single payment** loan in the amount of \$180,000.

No income available for one approved **credit card** loan file in the amount of \$2,000.

No income available for one approved **home equity (open-end)** loan file in the amount of \$50,000.

\*\* To obtain a sufficient number of approved real estate files, the loan sample was extended back to the previous examination date (6/24/97).

As the preceding chart illustrates, loans are primarily distributed among borrowers within the middle- and upper-income levels (53 or 60%). This distribution is acceptable, as the majority of the assessment area's families (82%) are middle to upper income families. The chart also shows commendable loan distribution for the low- and moderate-income levels (36 or 40%), when compared to the representation of these income levels (18%) within the assessment area.

Loans (with income information available) were distributed among borrowers of all income categories. Additionally, the majority of the bank's commercial lending within the assessment area were to small businesses with gross revenues of less than \$1 million, while all commercial loan funding during the six month period averaged less than \$200,000 per loan. This lending activity exceeds the standards of satisfactory performance given the demographics in the assessment area.

## GEOGRAPHIC DISTRIBUTION OF LOANS

There are no designated low- and moderate-income geographies located within the assessment area; therefore, this performance criterion was not rated.

## RESPONSE TO COMPLAINTS

The bank has not received any complaints regarding its CRA performance since the previous examination.